

TENNESSEE HOUSING MARKET

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Economic Overview

Growth for nonfarm employment accelerated during the fourth quarter, rising 0.5 percent from the previous quarter, the highest rate of growth since the second quarter of 2010. Over the year, nonfarm employment is 1.0 percent higher. The goods-producing sector, including construction and manufacturing, generated a disproportionate amount of growth, rising 2.8 percent over the year, including a 1.9 percent gain in manufacturing jobs. Services-producing jobs, the mainstay of job growth prior to the recession, have lagged due to continuing losses in the information and financial sectors.

After rising in the third quarter, the unemployment rate dropped markedly to 9.1 percent in the fourth quarter. Most of the improvement in the unemployment rate is due to rising employment, though the labor force shrank somewhat. The unemployment rate will likely continue to decline in future quarters as suggested by the improving picture for initial unemployment insurance claims (Figure 1).

Housing Construction

Construction activity posted a second consecutive quarterly rise, with the number of single-family permits reaching the highest level in two years and total permits climbing to a three-year high (Table 2). Single-family permits for Tennessee

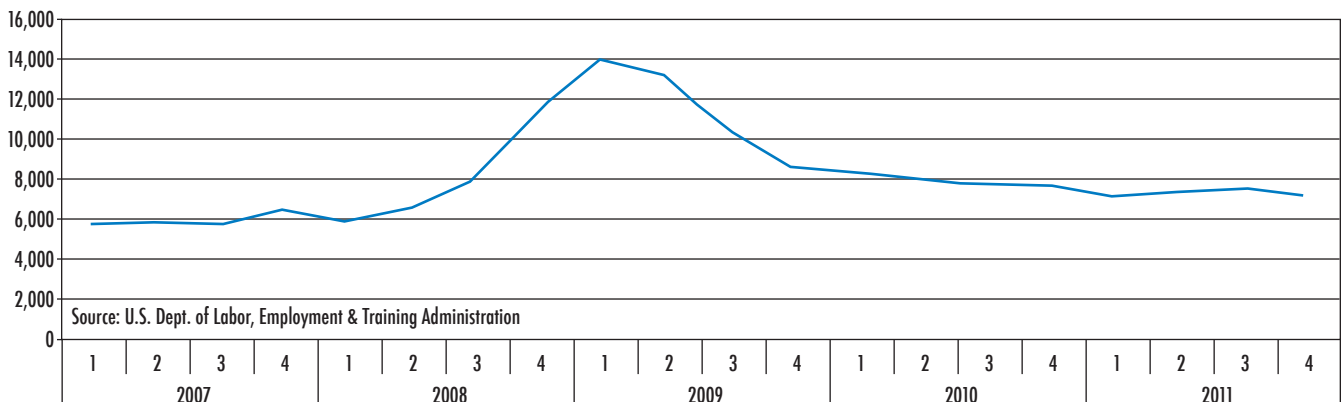
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Table 1. Selected Tennessee employment indicators (thousands, seasonally adjusted)

	2010.1	2010.2	2010.3	2010.4	2011.1	2011.2	2011.3	2011.4
Total nonfarm	2,596	2,616	2,616	2,621	2,629	2,628	2,636	2,649
Goods-producing sectors	400	406	404	403	405	409	413	414
Manufacturing	297	300	298	296	296	300	302	301
Services-providing sectors	2,197	2,210	2,212	2,219	2,224	2,219	2,222	2,235
Labor force	3,057	3,057	3,051	3,060	3,088	3,137	3,121	3,111
Total employment	2,741	2,758	2,763	2,773	2,795	2,833	2,816	2,828
Unemployed	315	299	288	287	293	304	305	283
Unemployment rate	10.3%	9.8%	9.4%	9.4%	9.5%	9.7%	9.8%	9.1%

Source: Bureau of Labor Statistics

Figure 1. Tennessee initial claims for unemployment insurance (quarterly averages of weekly data, seasonally adjusted)



Source: U.S. Dept. of Labor, Employment & Training Administration

**Table 2. Permits issued for privately owned new housing** (thousands, seasonally adjusted annual rate)

Quarter	Single-Family Permits			Multi-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2007.4	23.2	414.0	786.0	10.4	175.3	402.3	33.6	589.3	1,188.3
2008.1	18.5	366.3	671.3	5.3	170.0	353.7	23.7	536.3	1,025.0
2008.2	17.1	333.7	633.0	3.3	152.7	428.0	20.4	486.3	1,061.0
2008.3	15.5	283.7	547.7	5.3	162.7	311.0	20.8	446.3	858.7
2008.4	10.2	215.3	417.7	5.6	106.3	221.0	15.7	321.7	638.7
2009.1	10.3	197.7	358.3	2.7	82.3	180.3	13.0	280.0	538.7
2009.2	11.0	223.0	426.7	3.3	68.7	132.7	14.3	291.7	559.3
2009.3	12.7	252.3	485.7	1.2	53.3	121.0	14.0	305.7	606.7
2009.4	13.8	255.3	487.7	2.3	56.7	135.7	16.1	312.0	623.3
2010.1	13.1	269.0	518.3	6.3	59.3	141.3	19.5	328.3	659.7
2010.2	12.7	233.7	443.7	3.8	69.3	156.0	16.5	303.0	599.7
2010.3	10.2	210.3	405.7	4.4	77.7	165.0	14.6	288.0	570.7
2010.4	10.2	211.0	424.0	2.2	58.7	159.0	12.5	269.7	583.0
2011.1	10.5	213.3	397.7	1.8	76.7	161.0	12.3	290.0	558.7
2011.2	10.0	215.0	401.0	2.7	79.3	195.3	12.7	294.3	596.3
2011.3	11.2	219.7	411.3	3.0	84.7	193.7	14.2	304.3	605.0
2011.4	13.1	235.7	436.0	5.1	104.7	231.7	18.2	340.3	667.7
Change from previous quarter	16.9%	7.3%	6.0%	69.7%	23.6%	19.6%	28.1%	11.8%	10.4%
Change from previous year	27.9%	11.7%	2.8%	129.9%	78.4%	45.7%	46.2%	26.2%	14.5%

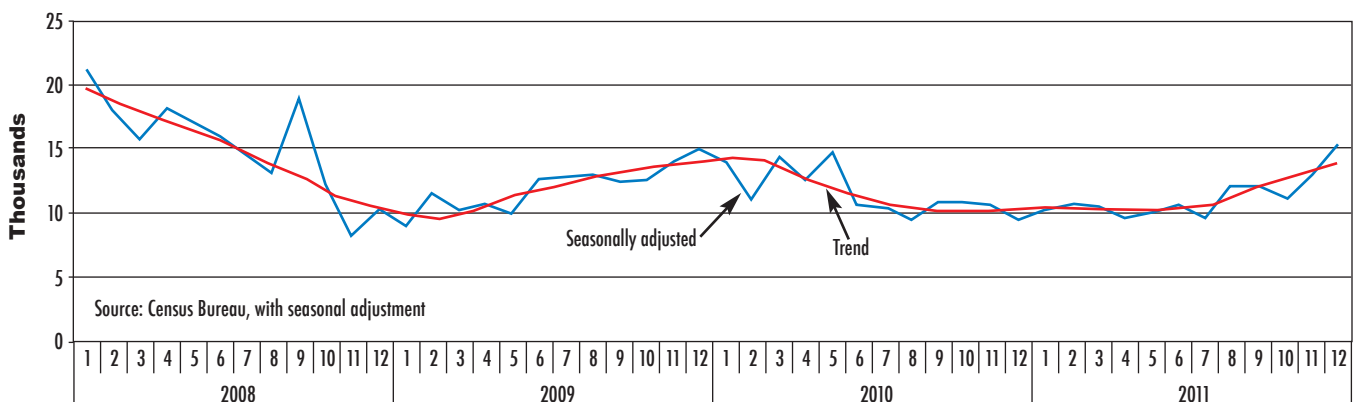
Source: Census Bureau.

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rose 16.9 percent for the quarter and 27.9 percent over the year, a much stronger rise than for the South or the United States. The level of single-family permits is still lower than in the fourth quarter of 2009 when the federal tax credit for home purchases was in place and far below the level that existed prior to the recession.

Multi-family permits (townhouses, condominiums, and apartments) also experienced large percentage gains, dwarfing the gains achieved in the South and the United States. To be sure, it does not require much of an increase to show a large gain from the depressed levels of activity that prevailed a year ago, but a gain is a gain. Apartment complexes in particular report high occupancy rates and rising rents, suggesting that the demand is growing faster than supply.

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Figure 2. Tennessee single-family home permits (seasonally adjusted annual rate, thousand units)



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Real Estate Transactions and Mortgages

Collections for mortgage taxes and real estate transactions taxes both increased during the fourth quarter, indicating a higher level of real estate activity. Mortgage tax collections rose for the fourth consecutive quarter, up 1.0 percent from the third quarter and 11.4 percent over the year. Mortgage tax collections may rise due to a greater quantity of new or refinanced mortgages. According to the Federal Housing Finance Agency (FHFA), refinancing represents the largest portion of mortgage activity, generating 80 percent of U.S. activity during the third quarter of 2011.

Real estate transactions tax collections gained 3.7 percent from the third quarter and 8.8 percent over the year. These rising collections suggest an increase in the number of real estate deals during the quarter.

Home Sales

Sales of single-family homes in the Knoxville and Memphis areas declined from the third quarter (Figure 5), falling 6.2 percent in Knoxville and 4.2 percent in Memphis, following strong sales during the third quarter. Even with the decline, however, sales in both areas are higher over the year, up 1.2 percent in Knoxville and 11.7 percent in Memphis. Inventories of unsold homes continue to drift lower, down 10 percent over the year in Knoxville and 19 percent for Memphis.

Sales in the Nashville area improved again in the fourth quarter, rising 6.3 percent from the third quarter. The inventory of homes on the market declined sharply to the lowest level since the fourth quarter of 2006.

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Figure 3. Real estate transfer tax collections (seasonally adjusted annual rate)

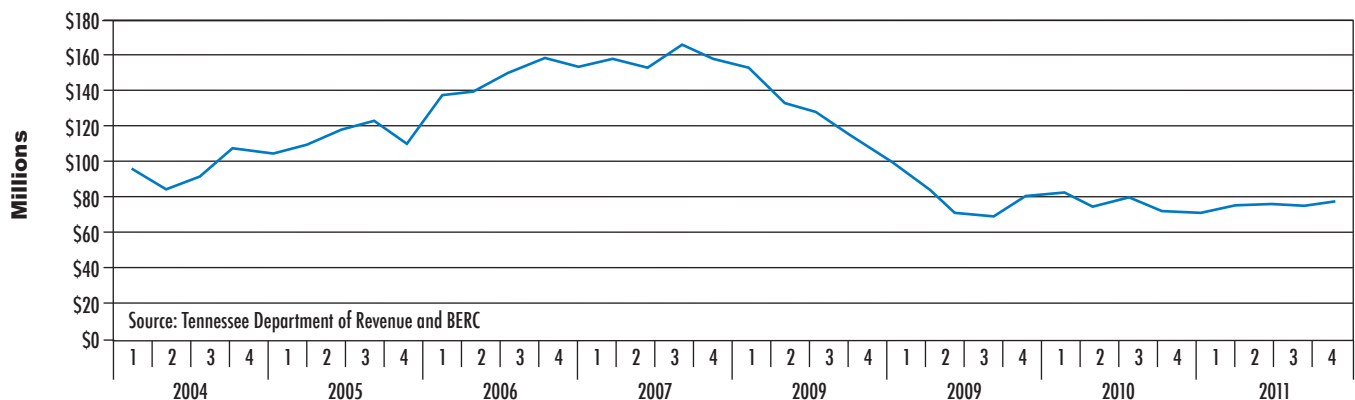
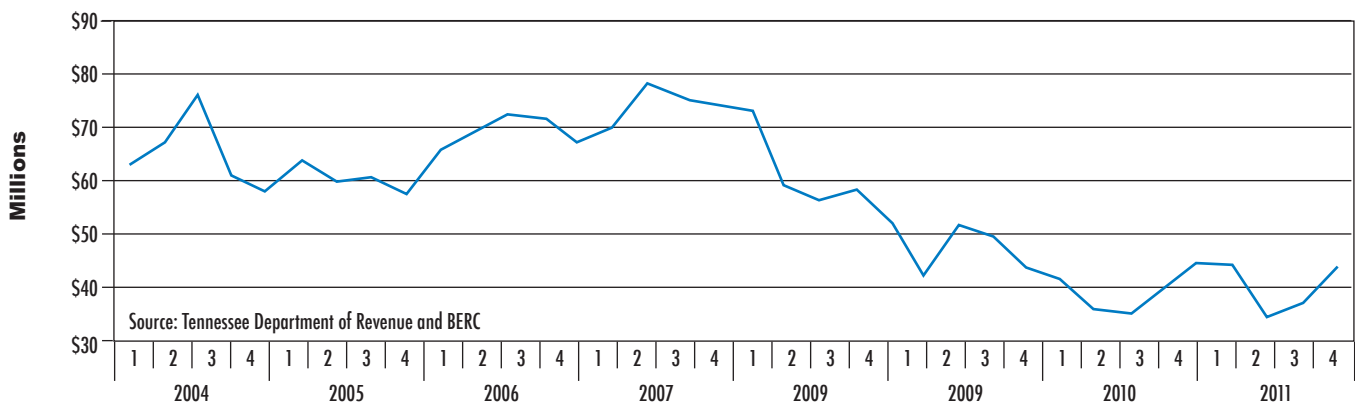
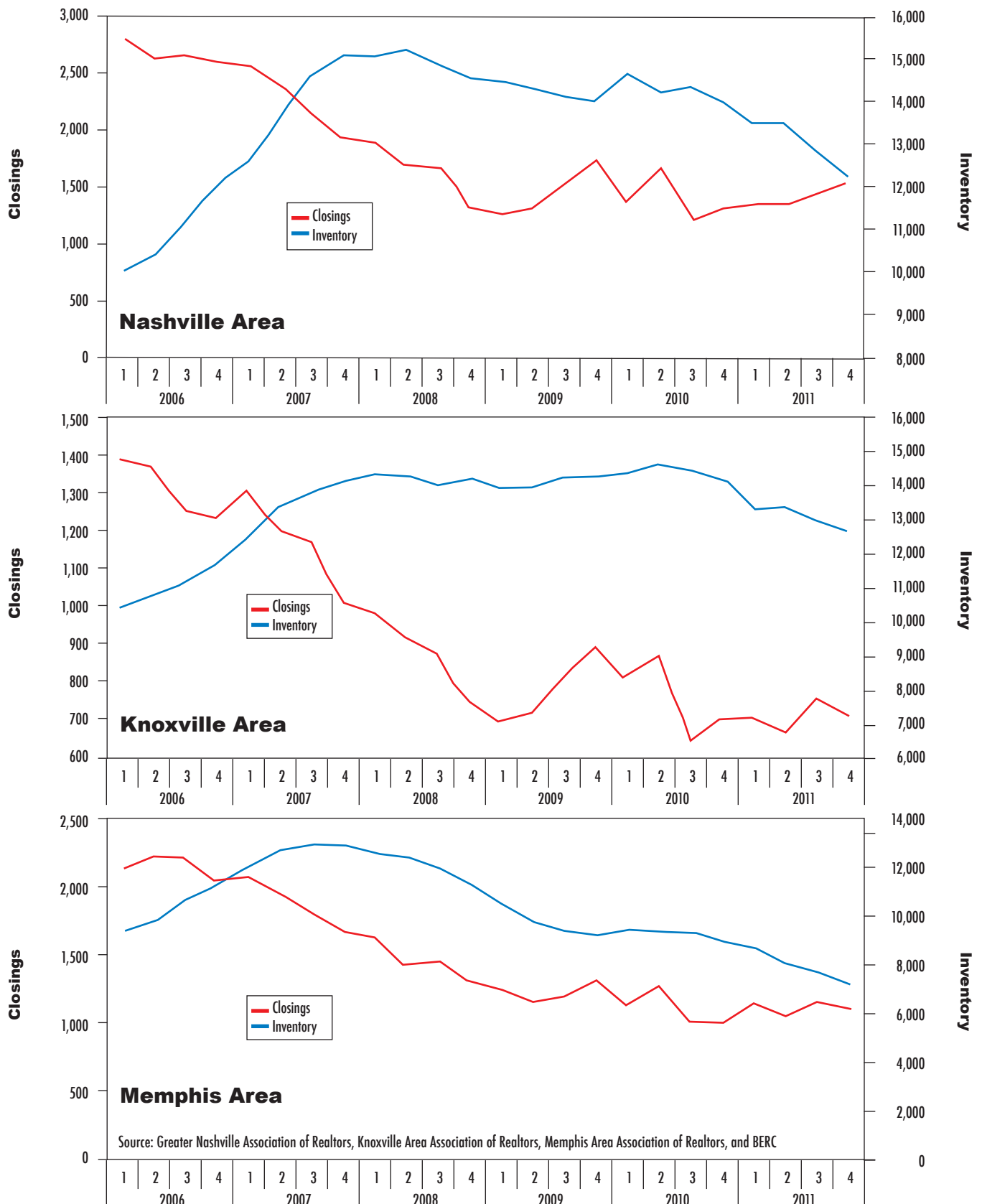


Figure 4. Mortgage tax collections (seasonally adjusted annual rate)



**Figure 5. Single-family sales and inventory** (seasonally adjusted quarterly average of monthly figures)

**Table 3. Mortgages past due, new foreclosures started, and foreclosure inventory**

(% of mortgages serviced, seasonally adjusted except foreclosure inventory)

Quarter	Tennessee			United States		
	Mortgages past due	Foreclosures started during quarter	Foreclosure inventory at end of quarter	Mortgages past due	Foreclosures started during quarter	Foreclosure inventory at end of quarter
2009.1	9.14	0.94	1.98	8.56	1.34	3.85
2009.2	9.96	0.93	2.17	9.23	1.37	4.30
2009.3	11.09	1.00	2.26	9.75	1.38	4.47
2009.4	11.31	0.94	2.34	9.85	1.25	4.58
2010.1	9.89	1.00	2.41	9.76	1.21	4.63
2010.2	10.47	0.80	2.23	9.79	1.12	4.57
2010.3	10.75	0.95	2.11	9.21	1.30	4.39
2010.4	10.74	1.04	2.53	8.45	1.32	4.64
2011.1	9.10	1.08	2.62	8.11	1.06	4.52
2011.2	9.74	0.85	2.58	8.44	1.01	4.43
2011.3	9.79	1.31	2.60	7.99	1.04	4.43
2011.4	9.87	0.89	2.54	7.58	1.04	4.38

Source: Mortgage Bankers Association of America and BERC.

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Mortgage Delinquencies and Foreclosures

Delinquencies and foreclosures show little change for the fourth quarter in Tennessee, according to data from the Mortgage Bankers Association (MBA). Mortgages past due rose slightly to 9.87 percent but remain much lower than a year ago (Table 3). Foreclosures started during the quarter fell to a more reasonable 0.89 percent from 1.31 percent in the third quarter, and the inventory of foreclosures fell somewhat to 2.54 percent. Overall, homeowners are showing less distress than a year ago, but rapid improvement remains elusive.

By contrast, delinquencies for the United States fell to 7.58 percent, and foreclosure starts and inventory are little changed from the third quarter. The MBA notes that the delinquency rate is improving rapidly because these loans are dominated by those issued prior to 2008, and this pool of loans is diminishing as a percent of all loans in place.

Home Price

Home prices continued to drop in Tennessee during the third quarter 2011, the latest data available (Figure 6). Prices fell 3.0 percent over the year for Tennessee, about the same rate of decline as the previous quarter, according to the All Transactions index prepared by the FHFA. By contrast, the United

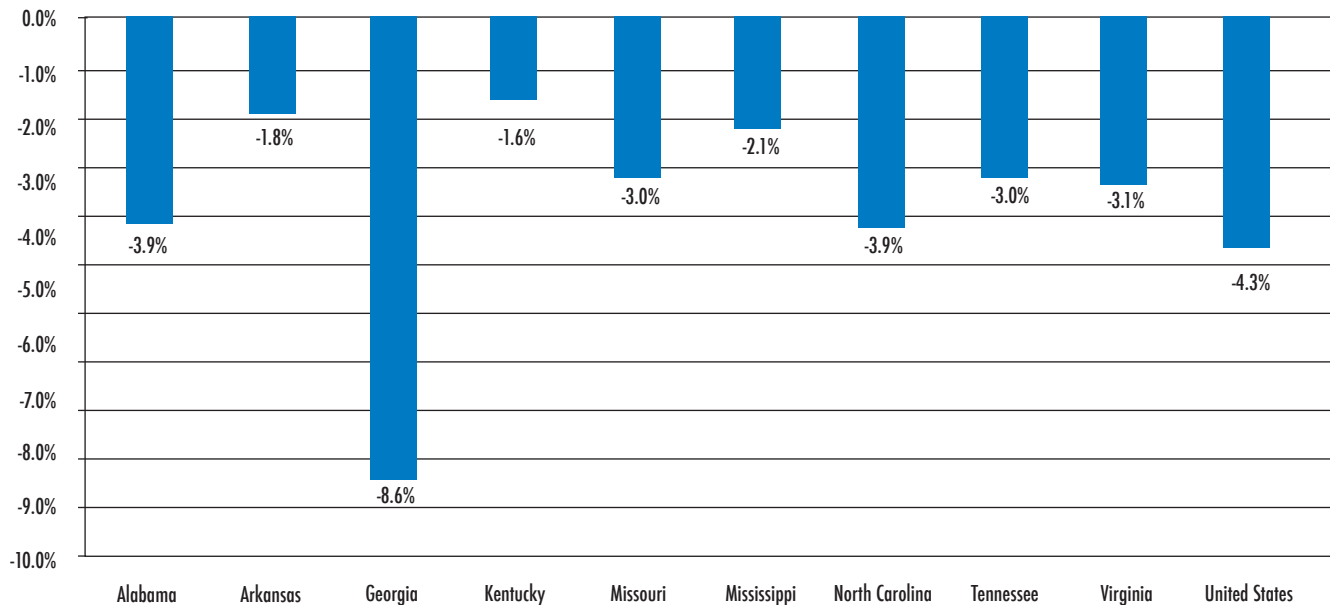
Table 4. Change in housing prices year to year

Area	2009.4-2010.4	2010.1-2011.1	2010.2-2011.2	2010.3-2011.3
U.S.	-1.6%	-3.2%	-4.2%	-4.3%
Tennessee	-0.7%	-1.5%	-3.1%	-3.0%
Chattanooga MSA	0.5%	-1.9%	-2.7%	-4.0%
Clarksville MSA	-1.3%	-0.8%	0.4%	-1.9%
Cleveland MSA	-1.2%	-1.9%	-2.5%	-2.6%
Jackson MSA	-1.1%	-0.5%	-6.3%	-3.7%
Johnson City MSA	0.5%	-0.8%	-4.2%	-4.4%
Kingsport-Bristol MSA	0.7%	-0.7%	-0.9%	0.0%
Knoxville MSA	-0.7%	-1.6%	-2.3%	-2.4%
Memphis MSA	-2.2%	-3.9%	-5.6%	-5.4%
Morristown MSA	-3.5%	-0.7%	-3.3%	0.5%
Nashville MSA	-0.2%	-1.5%	-2.3%	-2.5%
TN nonmetro areas	-0.1%	-0.3%	-3.3%	-2.7%

Source: Federal Housing Finance Agency All Transactions Index

States average decline was 4.3 percent. Tennessee ranks in the middle compared with the surrounding states, with Georgia experiencing a much greater decline (-8.6 percent) over the year and Kentucky the smallest decline (-1.6 percent).

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**Figure 6. Percent change in housing prices 2010.3–2011.3**

Source: FHFA All Transactions Index

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Within Tennessee, Morristown MSA (0.5 percent) and Kingsport-Bristol MSA (0.0 percent) are the closest to showing housing price appreciation with little change over the year. The most rapid rate of decline occurred in the Memphis MSA (-5.4 percent over the year), followed by Johnson City MSA (-4.4 percent) and Chattanooga MSA (-4.0 percent).

Conclusion

On balance, the Tennessee housing market experienced one of the better quarters of the past three years. Housing construc-

tion rose, housing-related tax collections gained, and inventories of unsold homes trended lower. Sales increased in the Nashville area.

Important weaknesses still exist, most notably falling housing prices. Mortgage delinquencies and foreclosures are improving but still very high.

We should expect additional improvements for the housing market as long as labor market conditions continue to improve. Rising employment in construction and manufacturing are very encouraging, as is the sharp fall in the unemployment rate. ■

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